

## THE REINDUSTRIALIZATION OF AMERICA

Can't we have both social progress and economic progress? I have often been asked this question during discussions of the current conflict in America between those who seek an improved 'quality of life' and those who favor rededication to economic growth. I have been asked if I think it is possible for America to develop new energy sources, increase productivity, keep consumer products flowing, and at the same time use the growing wealth to purchase an environment, a workplace, and consumer products that are healthier and safer.

In the second half of this century, Americans have come to prize a new vision of the good life. In the wake of an unprecedented material prosperity we have looked to still higher ideals which embrace harmony with ourselves, with others and with the environment. These ideals represent the quality of life which many of us seek.

However, there is a danger in overestimating the durability of our economic wealth and its ability to continually improve our quality of life. Although we might be able to get away with pouring resources into social programs and personal satisfactions for a few more years, we cannot shore up our weakened economy at the same time. I believe that, for both economic and social-psychic reasons, we will have to make a decision about where our priorities will lie in the next ten to fifteen years; with considerations for the quality of life or with reindustrialization.

The case for reindustrialization is straightforward. For the past decade the American society has been underdeveloping. Decades of overconsumption and underinvestment in the nationwide economic machine have weakened America's productive capacity. If America is to continue to be able to sustain a high standard of living and set aside the resources needed for national security, a decade or so of revitalizing its productive capacity — of reindustrialization — is necessary.

Historically, industrialization was achieved in several stages. From 1880 to the 1920s the infrastructure necessary for capital production developed; a communication system, nationwide transportation systems, inexpensive power sources, supportive legal and financial institutions, improved technology, human capital, and capital equipment. Development of this solid infrastructure made possible the capital goods sector, which included the building of heavy duty machinery, mills, and plants for mass production of consumer goods. These stages were well advanced in the United States by the late 1920s, but the depression and World War II delayed the full materializing of the affluent society until the late 1940s. At this time mass production of automobiles, televisions, appliances, residential homes, and hundreds of other popular consumer goods accompanied a rise in health standards, widespread post-secondary education, and an explosion of social services.

In the 1950s we began to make great outlays to social welfare and the public sector. In the 1960s and 1970s momentum grew in movements for social justice, alternative lifestyles, environmental and consumer protection, which resulted in a public and private consumption that took more out of the economy than could be replaced. While investment in the underlying and productive assets has never ceased, it has been,

relatively speaking, neglected. If the obsolescent elements in our economy are to be replaced and the productive sector adapted to the current environment, a decade of public and private belt-tightening is needed. Otherwise slow economic growth, decline in productivity, inflationary pressures, and other well-known signs of a strained economy will persist.

Reindustrialization advocates, while disagreeing on the why and how of our economic problems, agree that something more is amiss in the American economy than high inflation and unemployment, poor productivity growth, and low saving—that the problem is more severe than just one more downturn of the age-old business cycle, soon to swing up again. All agree that the foundation of the American economy has weakened and needs to be strengthened.

In determining specifically what needs shoring up, one must take into account the changing nature of the world in which our economy operates. We cannot simply retrace the steps of nineteenth-century industrialization; we must adapt to the last decades of the twentieth century and beyond. The two factors which assume prime importance today are energy, including the potential exhaustion of some sources, the rising costs of all sources, and the political dependence which importing generates; and national security.

A consideration of the energy problem suggests that we must adapt our infrastructure and capital goods to not only become more energy-efficient but to utilize fuels other than oil. In many cases we will need to generate capital for replacing or modifying machinery which is oil-consuming but not otherwise obsolete, in order to reduce our dependence on oil. Since we have been talking for seven years about the need to make such changes, but have accomplished relatively little on this front, I refer to this failure as the adaptation lag.

A consideration of the national security question suggests that we need to dedicate more resources to be able to deter Soviet incursions, not only in the form of direct attack, but also in any attempt to seize Middle East oil. To build strength for this sort of resistance will require allotment of capital in the form of facilities and personnel to tasks which do not directly increase our productive capacity. Furthermore, sheer economic logic dictates that we must build more of our own ships and dig more coal, even if this is not where our 'comparative advantage' lies.

The reindustrialization thesis has been confused with the notion of 'industrial policy', which maintains that we should promote some industries with public assistance while demoting others. To further confuse matters, there are two radically different versions of industrial policy. One calls for reviewing a few selected industries (autos, railroads, steel) and for using, for example, a \$5 billion revolving fund to help these industries overcome their obsolescence and be competitive again. A quite different version calls for a set of national committees to review, monitor, and guide a wide range of industries. Without going into the questions of how effective such national planning is in other nations and whether it is possible to transplant such a tool from one society to another, let me simply note that in contemporary America, which is growing more politically conservative and more opposed to big government, and which is characterized by weakened labor unions and consumer groups, it would be easier to walk on water than to form and implement a national plan for the economy.

Fortunately reindustrialization does not require national planning. All it takes is careful attention to two sectors — infrastructure and capital goods. Through the use of broad-stroke economic incentives such as accelerated depreciation, tax incentives for higher saving

and investment, more encompassing deductions for research and development expenditures, as well as some loan guarantees, and other support for those who practice energy efficiency and convert equipment from the use of oil to other fuels, we can achieve reindustrialization. Such a macro-approach can easily be supplemented by micro-industrial policy helping a few select industries without the need for national planning.

What is going to happen to the post-industrial notions which said, first, that we should move deeper into a service-oriented society while cutting back on primary and secondary economic sectors, and second, that we should let the developing nations, rich in blue collar workers, make steel, textiles, and autos, while we focus on the high technology stuff?

As I see it, we do need a stronger research and development and knowledge sector because this is where our 'comparative advantage' probably lies. Strength in this area would also provide for innovation, especially in the development of new energy sources, and for tools which are more energy efficient. However we should not abandon blue collar industries for several reasons. Some immigrants to the United States and portions of the American population often cannot find other than blue collar jobs. National security requires that we maintain or advance some of these industries to reduce our dependence on imports. And we must boost our productive base, from railroad tracks to synthetic fuel plants, from slurries to shipyards.

If both our industrial base and our knowledge sector have to grow in a decade of reindustrialization, public and private consumption will clearly have to be reduced. For a decade or so we will have to curb our expectations and modify our life styles or we will continue to eat into the economic foundation of our standard of living, the economic basis of our social benefits, and our security. Most Americans, I believe, presented

with a realistic program of reindustrialization, will be willing to make the needed sacrifices to secure their economic, social, and national future.

### **The Cities**

The impact of reindustrialization on the cities will be very uneven. Cities which are at the center of the infrastructure or heavy production areas will benefit indirectly more than cities which are principally centers of consumer goods and services. Cities in energy-rich areas such as Colorado, Texas, Louisiana, and Alaska will grow, perhaps too rapidly, and will face many problems—pressure on services, high speculation in real estate, the fear of the bust to follow the boom, and tensions between long-time residents and a flood of newcomers. These are the pains of hyper growth, but they seem pale in comparison with the strain of economic stagnation.

Not all the cities in the consumer-focused centers will necessarily suffer. Some of the cities may benefit from the intensified financial activity which reindustrialization entails. Others may benefit from an increase in tourism as domestic travel costs fall below those of traveling abroad. Washington, D.C. may thus benefit, even in an age of stagnant federal civil service, from an influx of both American and overseas tourists.

Those older cities which are not part of the revitalized areas and which exist mainly to provide the surrounding suburbs or smaller towns with shops and distribution centers, however, will very likely feel the brunt of the change in national priorities. They may, however, realize the benefits of a rise in the cost of suburban living, which may drive families back into the cities. Heating fuel, transportation, and residential housing costs rise even more rapidly than our hyperinflation. These skyrocketing costs will probably

encourage apartment and condominium living both in the cities and in the suburbs.

Above all, if reindustrialization is to be seriously advanced, we cannot afford to let the urban infrastructure which serves consumers remain a high priority item on the national agenda. City sewer systems, water mains, rapid transit systems, and other municipal services which are of prime interest to consumers, may be forced to take a temporary back seat when it comes to federal funding.

While the model advanced here may not present a pleasant prospect for the immediate future, we may be cheered by several reflections. In our pluralistic society, priority systems are rarely strictly imposed and even the lowest ranking priorities on a national or local agenda are often far from neglected. The emphasis on blue collar work should ease the pressure on the inner cities. Above all, a decade or so of reindustrialization may ready the nation for a return to a greater investment in consumer goods and services, and a greater investment in those cities most closely connected to these services. For some, the 1990s may well outshine the 1980s.